Phoenix Management Services
"Lending Climate in America" Survey

3rd Quarter 2011
Summary, Trends and Implications

PHOENIX
"LENDING CLIMATE IN AMERICA"
QUARTERLY SURVEY

3rd Quarter 2011

SUMMARY, TRENDS AND IMPLICATIONS

1. **Respondents were asked: Now that the Federal Reserve has completed its second round of quantitative easing (QE2), how would you gauge the success of the policy?**

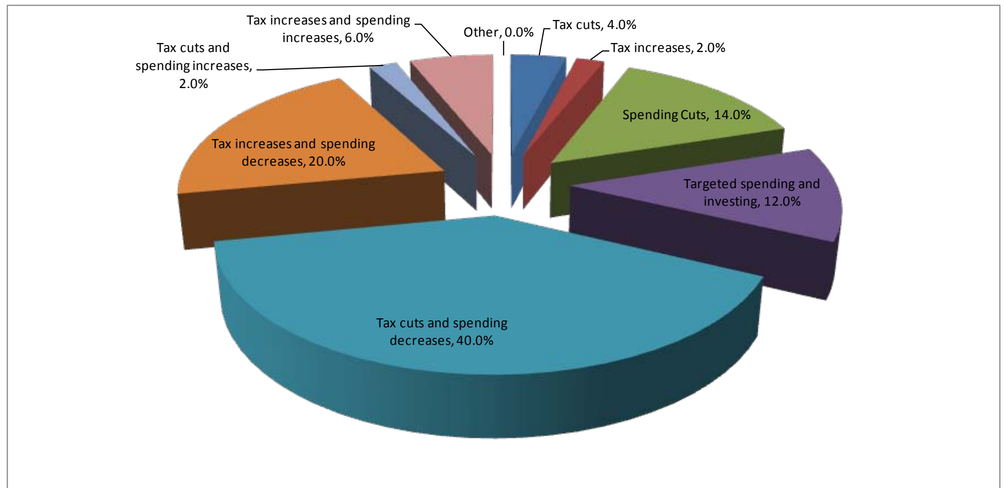
   Forty percent of respondents believe the QE2 had limited success, although the impact was somewhat muted. Thirty seven percent of respondents answered that they do not believe there has been any substantial improvement as a result of QE2. Twenty one percent are convinced that given the limited options for improving the economy, QE2 was a success in that it helped slow the economic slide that was occurring at the time. The remaining two percent of lenders chose "Other" as their response to the topic of debate.

2. **Recently, the United States sovereign debt was downgraded by Standard & Poors to AA+. What will the trickledown effect be on US-based corporate lenders?**

   An overwhelming seventy three percent of lenders believe that while the downgrade would suggest that interest rates should increase, there is still a consensus that recent low interest rates on both government and corporate debt should continue for the near term. Nineteen percent of respondents answered that there will be little impact from the downgrade to government and corporate debt in the near term, but the market will begin to charge a premium due to the downgrade and interest rates will begin to increase in 2012. The remaining eight percent of lenders believe that the market has not reflected the downgrade. As the economy improves, the downgrade will begin to be reflected in all levels of US debt with an expectation of steady rate increases throughout 2012-2013.

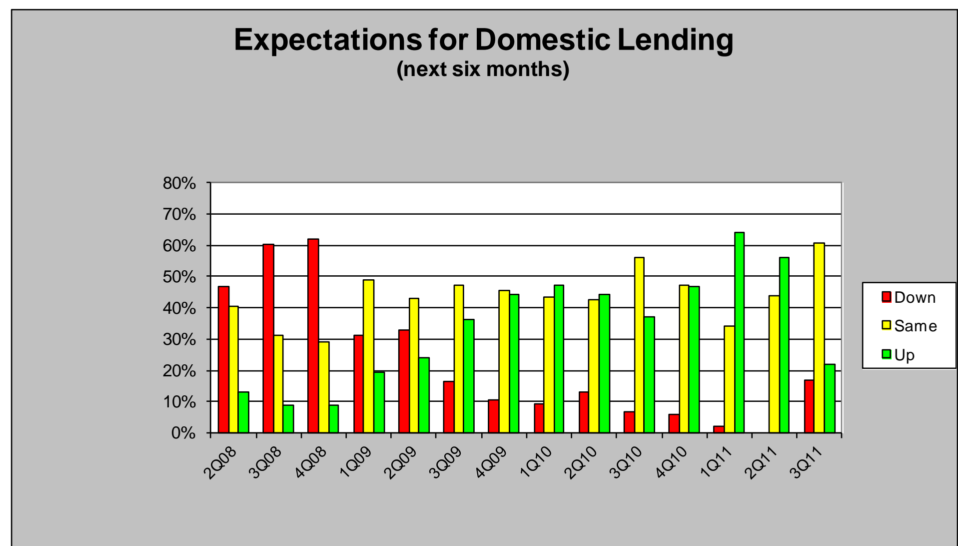
3. **With the conclusion of the debt ceiling debate, in terms of improving the overall economy for your borrowers, which of the following fiscal policy approaches do you think is MOST important?**

   Forty percent of respondents believe the conservative combination of tax cuts and spending decreases is the most appropriate fiscal policy approach to improve the overall economy. Twenty percent of lenders chose the combination of tax increases and spending decreases as the best policy approach. Fourteen percent believe solely spending cuts will prove as the best way to improve the economy. Twelve percent of respondents chose the combination of targeted spending and investing as best approach in improving the general economy. Six percent of lenders chose the combination of tax increases and spending increases as the best way to improve the economy. Four percent chose simply utilizing tax cuts as the most important driver of economic improvement. Two percent of respondents each chose (1) tax increases and (2) tax cuts as the best way to improve the current economic conditions.



4. **Domestic lending expectations experienced a significant decline in Q3 2011 versus the previous quarter.**

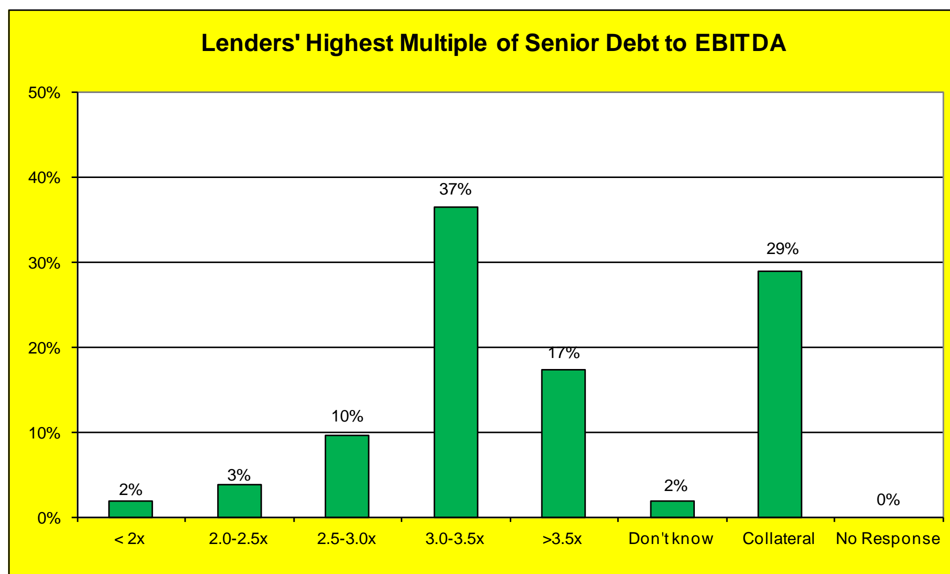
   The overall index for all domestic lending segments decreased by fifty one percentage points in comparison to last quarter's survey. Respondents indicated that, on average for all domestic lending categories; only twenty two percent have expectations for increased loan demand (versus fifty six percent in the prior quarter). Seventeen percent of lenders in Q3 2011 anticipate overall domestic lending to decline which is compared to zero percent from the previous quarter. All three major domestic commercial lending categories including corporate, middle market and small business experienced significant pull back in sentiment in Q3 2011 versus the prior quarter.



5. **Senior Debt to EBITDA ratios remained relatively unchanged regarding senior loan multiples compared to the previous survey.**

   Thirty seven percent of lenders indicated their financial institution would consider a loan request with a Senior Debt to EBITDA multiple as high as 3.0-3.5x, down three percentage points from the previous survey. Seventeen percent of lenders indicated that they would consider a loan with senior leverage higher than 3.5x, which is unchanged from Q2 2011. Ten percent opined that their institution would only consider a loan request with a leverage ratio of 2.5-3.0x, one percentage point lower

than in the previous quarter. The percentage of lenders which indicated they are collateral lenders and do not utilize cash flow as a lending metric totaled twenty nine percent; three percentage point higher than the previous survey. Three percent of lenders will only consider senior leverage ratios between 2.0-2.5x, compared to zero percent in the previous survey. Two percent of lenders agreed on a 2.0x multiple as the maximum ratio they would consider, which compares to zero percent from Q2 2011. The remaining two percent answered "Do Not Know" in response to the question.



6. **Over half (fifty four percent) of the respondents believe their institution's senior debt to EBITDA ratio will experience no change in the next six month compared to forty six percent that shared the same sentiment last quarter.**

   Five percent of respondents believe that the highest senior debt to EBITDA multiple will increase greater than 0.5x (down nine percentage points from the previous quarter), while ten percent anticipate the multiple will increase less than 0.5x over the next six months (down by two percentage points from the previous quarter). Eight percent of respondents suggested that the multiple would decline at their financial institution over the next six months (three percent in the previous quarter). Twenty three percent of respondents indicated they were collateral lenders and did not specifically focus on that multiple (unchanged from the previous survey).

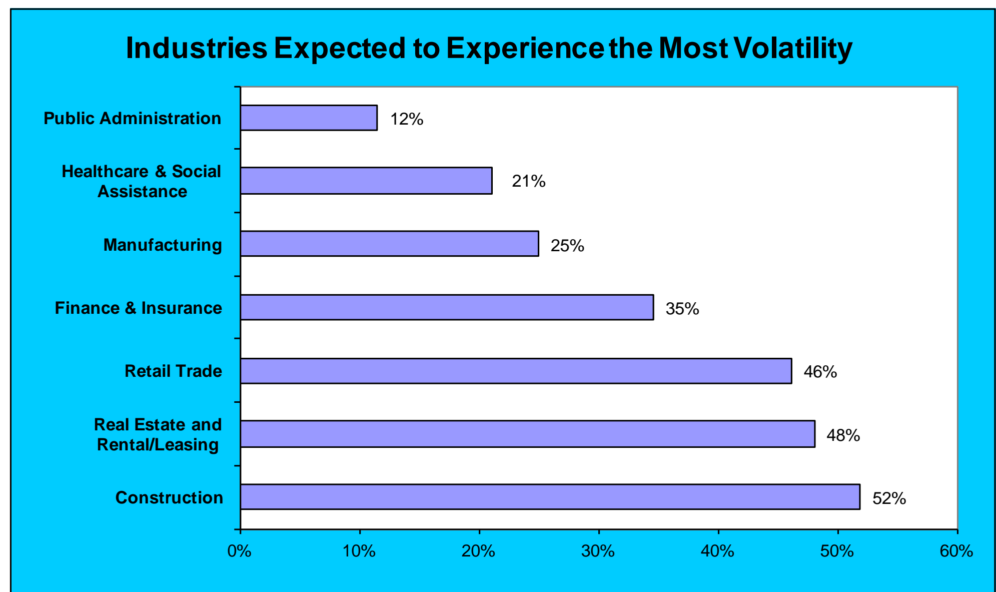
7. **"Sluggish Housing Markets" was the chief concern as potentially having the strongest impact on the economy in the short term.**

   When asked to choose two factors that could have the strongest potential to affect the economy in the next six months, nearly half (forty eight percent) chose the sluggish housing markets as having the greatest potential, which is nearly unchanged from the previous survey. It was Q4 2010 since the last time this macroeconomic factor held the top ranking. Thirty seven percent believe the increasing U.S. budget deficit will have the strongest impact on the economy, unchanged from Q2 2011. Twenty three percent are concerned that the constrained liquidity in the capital markets could have the greatest impact on the economy in the next six months, up twenty percentage points from the previous quarter. Twenty one percent chose unstable energy prices as potentially having the strongest impact on the economy, which marks the largest percentage decrease from the previous quarter; lower by seventy percentage points.

Only three percent respondents believe the stability of the stock market could have the biggest impact on the economy in the next six months.

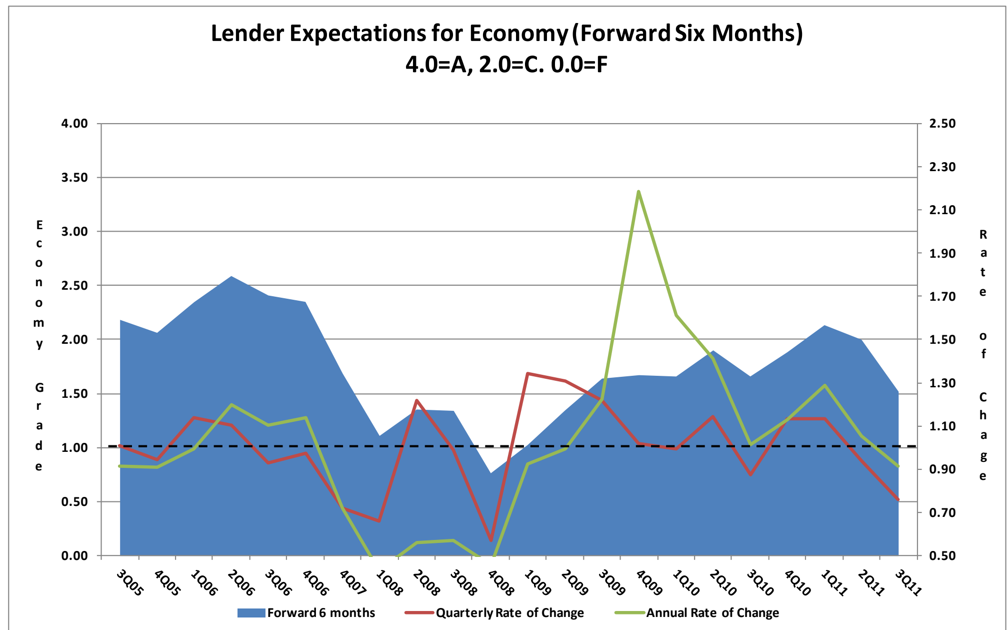
8. **For the fifth consecutive quarter, respondents anticipate the Construction industry to experience the most volatility in the next six months**.

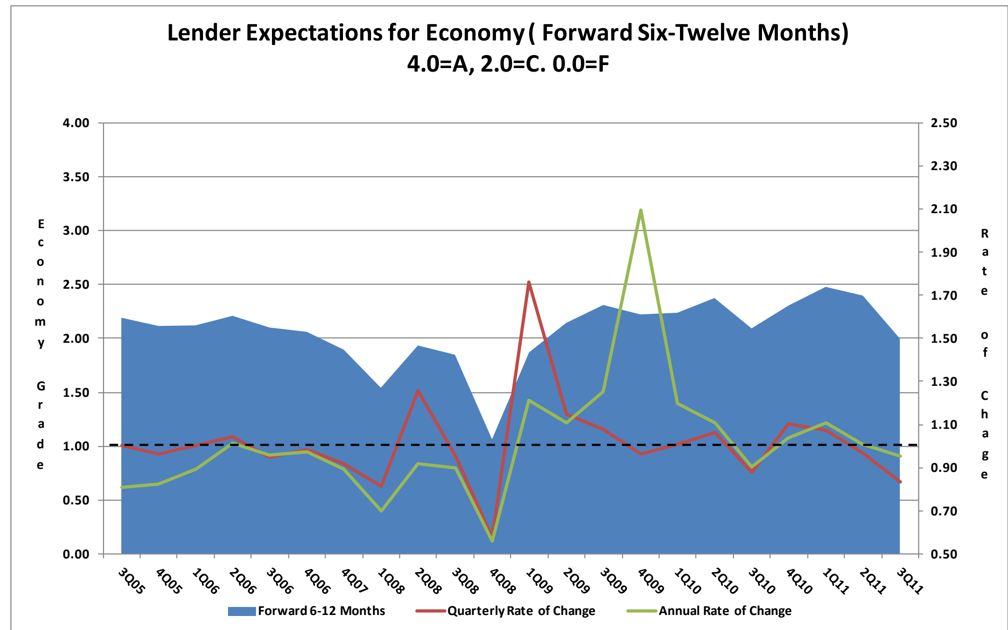
   When asked to identify three industries that will experience the most volatility in the next six months, fifty two percent chose the Construction industry as likely to experience the most volatility. Forty eight percent of lenders chose the Real Estate and Rental/Leasing industry. These two industries were the top two responses in the previous survey. Forty six percent believe the retail trade industry will experience the most volatility in the next six months. Thirty five percent of respondents chose the Finance and Insurance industry. Twenty five percent believe the Manufacturing industry will experience the most volatility in the next six months. Twenty one percent of lenders anticipate the Healthcare & Social Assistance industry to experience significant volatility over the next six months. Twelve percent chose Public Administration as the industry to experience the most volatility in the next six month period. The remaining industries yielded responses of less than ten percent.



9. **Forty four percent of respondents' customers anticipate making new capital investments in the next six months (down twenty five percentage points from the previous survey).**

   Forty percent also anticipate their customers to introduce new products or services in the next six months; six percentage points lower than in Q2 2011. Thirty five percent responded their customers are planning on making an acquisition; lower by nineteen percentage points from the previous quarter. Thirty five percent believe their customers will enter new markets in the near term; higher by six percentage points from the previous quarter. Twenty nine percent expect their customers to begin to raise new capital compared to twenty six percent from the previous quarter. Twenty five percent of lenders believe their customers will hire new employees during the next six months which is a twenty one percentage point decline from the previous quarter. Eight percent of respondents believe their customers will conduct "Other" activities in the near term.





i. *Rate of Change of 1.0 is at equilibrium and signifies "no change" from the corresponding prior period of comparison.*

10. **Lenders expectations for the economy's growth expectations declined for the next six months compared to the previous survey.**

    As a result of the current economic outlook, lenders economic growth expectations fell by nearly a half letter grade to "D+" levels compared to the previous survey. Fifty two percent of lenders believe the economy will perform at a "C" level over the next six months, while the remaining forty eight percent of respondents believe the economy will continue to languish at a "D" level.

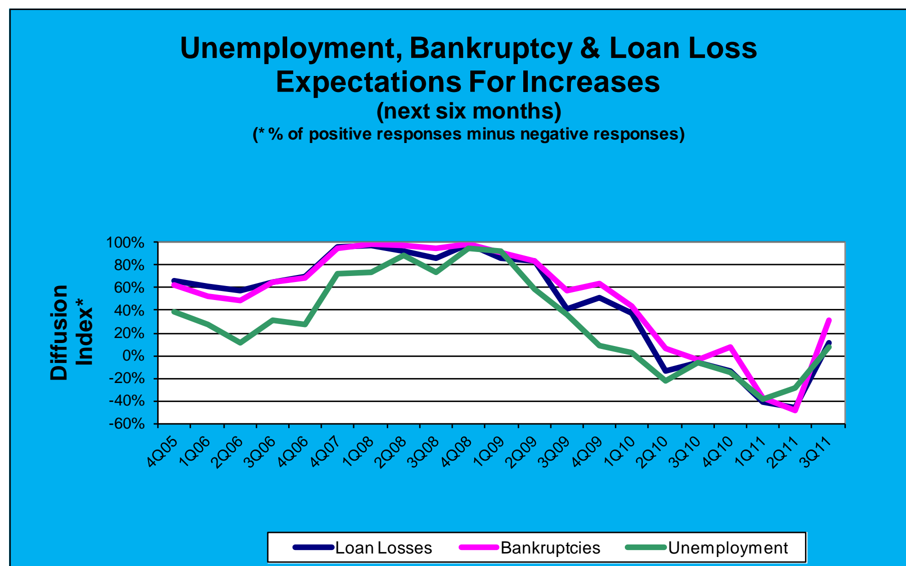
11. **Lenders expectations for the economy's growth expectations for the out period six to twelve months also signal signs of decline compared to the previous survey.**

    While lenders expect incremental growth in the following six to twelve month forward period compared to the near term expectations (next six months), the growth

expectations for the out period declined from a "C+" level in Q2 2011 down to a "C" level in the current quarter. Fifty eight percent of lenders believe the economy will perform at a "C" level in the six to twelve month out period, while twenty one percent of lenders believe the economy will perform at "B" and "D" levels, respectively.

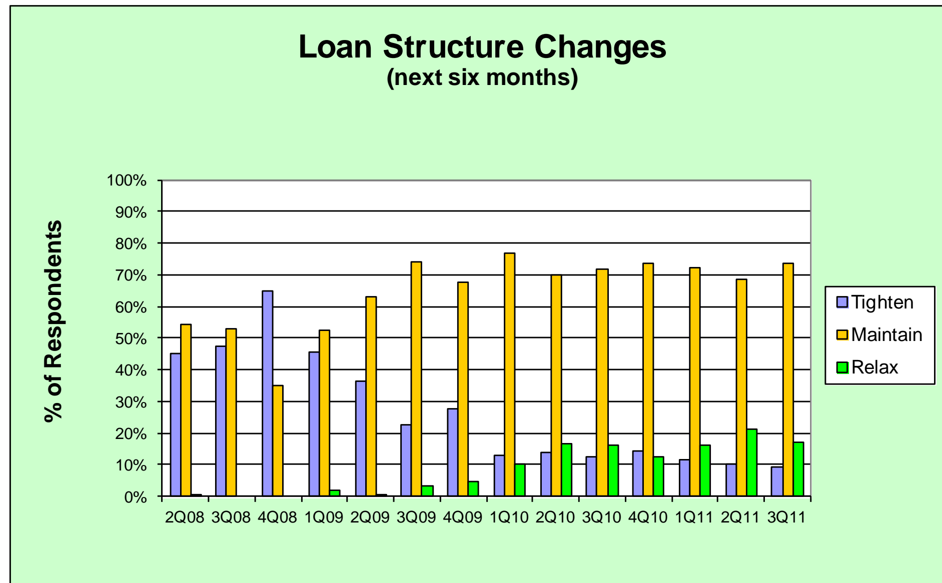
12. **Lenders expectations of macroeconomic indicators declined in all three major categories compared to the previous quarter.**

    Lenders expectations regarding the economic indicators including loan losses, bankruptcies and unemployment all weakened versus the previous quarter. Expectations of loan losses declined by fifty seven percentage points on the diffusion index as only seventeen percent of lenders believe loan losses will decline compared to fifty seven percent of lenders in the previous survey. Expectations regarding bankruptcies also had a dramatic swing from the previous quarter. The diffusion index for bankruptcies declined by seventy nine percentage points versus the previous survey. Forty two percent of respondents believe that bankruptcy levels will increase compared to only fourteen percent from the previous quarter. As a result of the bearish outlook on the macroeconomic indicators polled in this survey, a significantly higher percentage of lenders (eighty three percent) anticipate interest rates to stay at current levels versus forty three percent from Q2 2011.



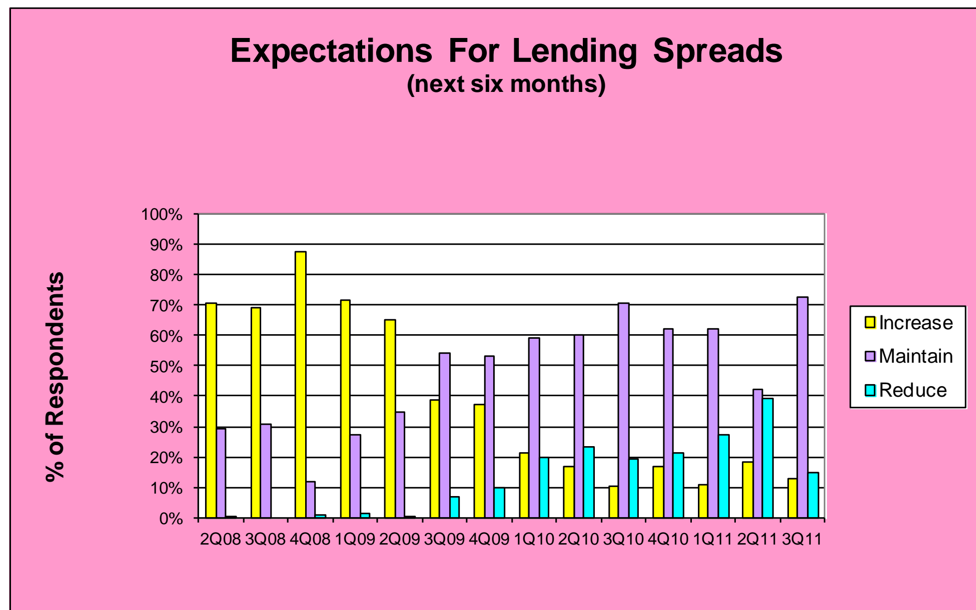
13. **Lenders expectations of a change to relax their loan structures remained relatively unchanged from the previous quarter.**

    The percentage of respondents planning to relax their loan structure declined to seventeen percent, four percentage points lower compared to the previous quarter. Lenders who expect to tighten their loan structures declined by only one percentage point versus the previous quarter (nine percent in current survey versus ten percent in Q2 2011). An overwhelming seventy four percent of lenders anticipate maintaining their loan structures in the next six months, five percentage points higher compared to the previous quarter.



14. **Lenders expecting to maintain their interest rate spread increased by thirty one percentage points compared to the previous quarter.**

    Seventy three percent of respondents (versus forty two percent in the previous quarter) anticipate maintaining lending spreads from their current levels. The percentage of lenders expecting to reduce their current credit spreads declined by twenty four percentage points, down to fourteen percent, in comparison to the previous survey. Thirteen percent of lenders anticipate increasing their credit spreads in the next six months versus nineteen percent in Q2 2011.



Phoenix Management Services
"Lending Climate in America"
3rd Quarter 2011

Survey Results

1. The Fed's 2nd round of Quantitative Easing yielded limited improvement to the economy.

Lenders were asked: Now that the Federal Reserve has completed its second round of quantitative easing (QE2) how would you gauge the success of the policy?

- Forty percent believe QE2 was a limited success, although the impact was somewhat muted.
- Thirty seven percent of respondents opined that there has been any substantial improvement as a result of QE2.
- Twenty one percent agreed that given the limited options for improving the economy, QE2 was a success in that it helped slow the economic slide that was occurring.
- The remaining two percent of lenders chose "Other" as their response to the question.

2. Anticipated corporate lending environment as a result of recent downgrade of US sovereign debt.

Recently, the United States sovereign debt was downgraded by Standard & Poors to AA+. What will the trickledown effect be on US-based corporate lenders?

- Seventy three percent of lenders suggested that while the downgrade would suggest that interest rates should go up, the recent low interest rates on both government and corporate debt should continue for some time.
- Nineteen percent of lenders believe that there will be little impact from the downgrade to government and corporate debt in the near term, but the market will begin to charge a premium due to the downgrade and interest rates will begin to increase in 2012.
- The remaining eight percent agreed that the market has not reflected the downgrade. As the economy improves, the downgrade will begin to be reflected in all levels of US debt and expect to see steady interest rate increases throughout 2012-2013.

3. Fiscal Policy Initiatives to Improve the Economy

With the conclusion of the debt ceiling debate, in terms of improving the overall economy for your borrowers, which of the following do you think is MOST important?

- Forty percent of lenders chose the combination of tax cuts and spending decreases as the most effective way to improve the overall economy for borrowers.
- Twenty percent believe the combination of tax increases and spending decreases as the best way to improve the economy.
- Fourteen percent chose the singular approach of spending cuts as the most effective way to improve the economy.

- Twelve percent believe the combination of targeted spending and investing as the best way to improve the economy.

- Six percent of lenders believe the combination of tax increases and spending increases as the most effective way to improve the economy for borrowers.

- Four percent chose the singular act of tax cuts as the best way to improve the economy.

- Two percent of respondents believe tax increases will prove to be the best way in improving the economy.

- Two percent chose the combination of tax cuts and spending increases as the best way to improve the economy.

4. Highest Senior Debt to EBITDA Multiple Institutions Would Consider

Respondents were asked the highest multiple of Senior Debt to EBITDA their financial institution would consider with regard to a loan request.

- Thirty seven percent indicated their institution would consider a loan request with a leverage multiple as high as the 3.0x – 3.5x range (previous survey: 40 percent).

- Twenty nine percent of respondents replied they are collateral lenders and, therefore, do not make credit decisions based on cash flow/leverage multiples (previous survey: 26 percent).

- Seventeen percent of lenders opined their financial institution would consider a loan request with a leverage multiple of greater than 3.5x (previous survey: 17 percent).

- Nine percent believed their institution would consider a loan request with a Senior Debt to EBITDA multiple as high as the 2.5x – 3.0x range (previous survey: 11 percent).

- Four percent of lenders believed their institution would consider a loan request with a Senior Debt to EBITDA multiple as high as 2.0x – 2.5x range (previous survey: 0 percent).

- Two percent of lenders indicated that their financial institution would only consider a loan request with a Senior Debt to EBITDA ratio of less than 2.0x (previous survey: 0 percent).

- The final two percent chose the response "Do Not Know" as their answer to the question.

5. Anticipated Change in Senior Debt to EBITDA Multiple

Respondents were asked, over the next six months, how the Senior Debt to EBITDA multiple would change at their financial institution.

- Fifty four percent indicated that the Senior Debt to EBITDA multiple will not change at their financial institution over the next six months (previous survey: 46 percent).

- Twenty three percent of respondents replied they are collateral lenders and, therefore, do not make credit decisions based on cash flow/leverage multiples (previous survey: 23 percent).

- Ten percent of lenders believe that the leverage multiple will increase less than 0.5x during the next six months (previous survey: 11 percent).

- Eight percent conclude that the leverage multiple will decrease less than 0.5x during the next six months (previous survey: 3 percent).

- Five percent conclude that the leverage multiple will increase greater than 0.5x during the next six months (previous survey: 14 percent).

6. Factors with Strongest Potential to Affect Near-Term Economy

Respondents were asked, over the next six months, which TWO factors had the strongest potential to affect the economy.

- Forty eight percent designated the housing market as the factor with the strongest potential to affect the near-term economy (previous survey: 49 percent).

- Thirty-seven percent of respondents selected the U.S. budget deficit as having the strongest potential to affect the economy over the next six months (previous survey: 37 percent).

- Thirty five percent opined that the stability of the stock market has the strongest potential to affect the economy during the next six months (previous survey: 3 percent).

- Twenty three percent indicated constrained liquidity in the capital markets as the factor with the strongest potential to affect the near-term economy (previous survey: 3 percent).

- Twenty one percent concluded that unstable energy prices have the strongest potential to affect the economy during the next six months (previous survey: 91 percent).

- Twelve percent chose “Other” factors as having the strongest potential to affect the economy during the next six months (previous survey: 3 percent).

7. Industries Expected to Experience Greatest Volatility

Respondents were asked, over the next six months, which industries will experience the most volatility (i.e. Chapter 11 filings, mergers and acquisitions, declining profits, etc.). Respondents were asked to select the top three industries.

- Fifty two percent designated the Construction industry as the industry expected to weather the greatest volatility in the near term (previous survey: 66 percent).

- Forty eight percent responded that the Real Estate and Rental/Leasing industry would experience the most volatility during the next six months (previous survey: 60 percent).

- Forty six percent believe the Retail Trade industry would experience the most volatility over the next six months (previous survey: 17 percent).

- Thirty five percent of respondents believe the Finance and Insurance industry will experience the greatest volatility over the next six months (previous survey: 20 percent).

- Twenty five percent of lenders believe the Manufacturing industry to experience the greatest volatility (previous survey: 14 percent).

- Twenty one percent of respondents chose the Healthcare and Social Assistance industry to experience the greatest volatility (previous survey: 14 percent).

- Twelve percent of respondents believe the Public Administration industry will experience significant volatility in the next six months (previous survey: 11 percent).

- The balance of the industry choices registered ten percent or less from the respondents.

8. Customers' Plans in the Next Six to Twelve Months

Respondents were asked which of the following actions their customers planned in the next six months. Lenders were asked to designate all potential customer actions that applied.

- Forty four percent of lenders believe their customers will be making new capital investments (previous survey: 69 percent).

- Forty percent of lenders believe their customers are planning on introducing new products or services (previous survey: 46 percent).

- Thirty five percent of lenders indicated their customers are planning on making an acquisition in the next six months (previous survey: 54 percent).

- Thirty five percent responded their customers are planning on entering new markets in the near term (previous survey: 29 percent).

- Twenty nine percent indicated their customers are planning on raising additional capital in the near term (previous survey: 26 percent).

- Twenty five percent of respondents indicated their customers plan on hiring new employees in the next six months (previous survey: 46 percent).

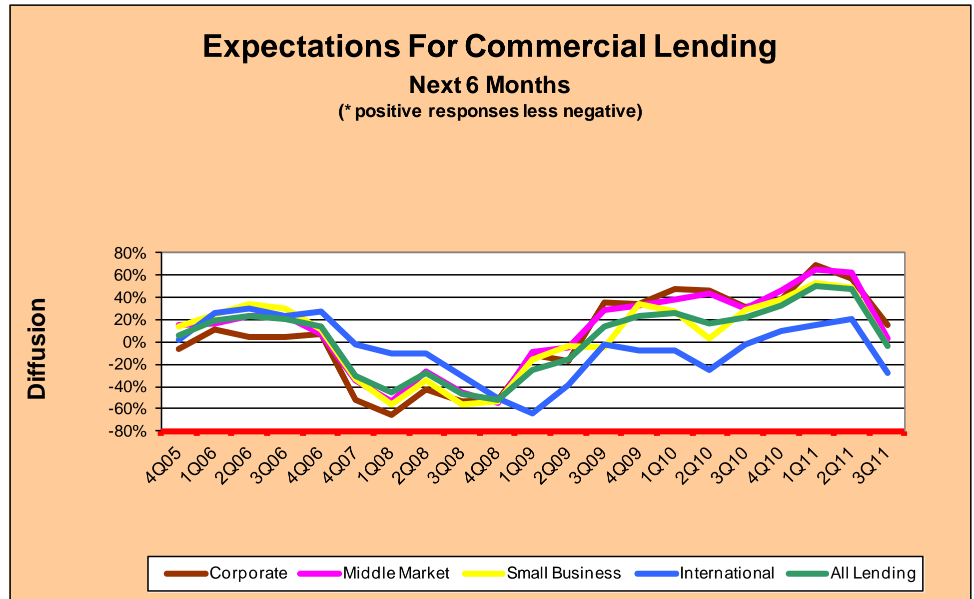
- Eight percent of lenders believe their customers are planning "Other" initiatives in the next six months (previous survey: 3 percent).

9. Economic Indicators

Respondents were asked whether they expected the following economic indicators to be up, down, or remain the same over the next six months.

- Overall sentiment regarding lending economic indicators retreated during Q3 2011 compared to the growing optimistic trend from past several quarters. Only one fifth (20%) of the respondents believe the lending environment is improving compared to

nearly half (49%) of respondents from the previous quarter. Twenty three percent of lenders anticipate bearish overall economic indicators in the near term compared to only one percent of respondents believing the economic indicators would decline in the previous quarter. The overall lending diffusion index for all lending categories was down by fifty percentage points in comparison to the previous quarter. The diffusion index for all types of domestic lending categories as well as expectations for international lending, all were down compared to the previous quarter.



	3Q/2011			2Q/2011		
	Up	Down	Same	Up	Down	Same
Corporate Lending	31%	15%	54%	57%	0%	43%
Middle Market Lending	13%	10%	77%	63%	0%	37%
Small Business Lending	22%	26%	52%	49%	0%	51%
International Lending	12%	40%	48%	26%	6%	68%

- All of the macroeconomic indicators surveyed yielded negative sentiment as loan losses, bankruptcies and unemployment exhibit states of decline in comparison to the previous survey. Concerns regarding unemployment continue to resonate as only fifteen percent of lenders believe unemployment will improve (decline) versus forty percent in the previous quarter. Due to weakening macroeconomic sentiment, expectations of interest rates either being maintained or declining increased versus the previous quarter.

	3Q/2011			2Q/2011		
	Up	Down	Same	Up	Down	Same
Loan Losses	29%	17%	54%	11%	57%	32%
Bankruptcies	42%	12%	46%	14%	63%	23%
Interest Rates	12%	6%	82%	57%	0%	43%
Unemployment	23%	15%	62%	11%	40%	49%

10. U.S. Economy Grade – Next Six Months

Respondents were asked how they expected the U.S. economy to perform during the next six months on a grading scale of A through F.

- Respondents voiced a less favorable outlook on the near term performance of the U.S. economy versus sentiment in the previous quarter. In the current quarter, there were no respondents that believe the economy will perform at a "B" level or better, which is fourteen percentage points lower than the previous quarter. The percentage of lenders who believe the economy will languish at a "D" level or worse increased by thirty four percentage points from the previous survey (48 percent in Q3 2011 versus 14 percent in Q2 2011).

Grade	3Q/2011	2Q/2011
A	0%	0%
B	0%	14%
C	52%	72%
D	48%	14%
F	0%	0%
Weighted Average Grade	1.52	2.00

11. U.S. Economy Grade – Beyond the Next Six Months

Respondents were asked how they expected the U.S. economy to perform beyond the next six months ("out" six months) on a grading scale of A through F.

- Lenders expectations for the U.S. economy's performance in the "out six months" period declined compared to the previous survey, from a weighted average input of 2.00 in the current survey compared to a grade of 2.40 in Q2 2011. Only twenty one percent of lenders believe the economy will perform at a "B" level compared to nearly half (49 percent) in the previous survey.

Grade	3Q/2011	2Q/2011
A	0%	0%
B	21%	49%
C	58%	43%
D	21%	8%
F	0%	2%
Weighted Average	2.00	2.40

12. Customers' Future Growth Expectations

Lenders assessed their customers' growth expectations for the next six months to a year.

- The percentage of respondents indicating their customers have "moderate" growth expectations for the next six months to one year declined from the previous survey at sixty percent (80 percent in Q2 2011). Lenders expectations for their customers to experience "no growth" increased dramatically to thirty eight percent versus only eleven percent in the previous quarter. In the previous survey, nine percent of respondents were convinced that their customers have "strong" growth expectations for the next six months to a year compared to only two percent in the current survey.

Indication	3Q/2011	2Q/2011
Very Strong	0%	0%
Strong	2%	9%
Moderate	60%	80%
No Growth	38%	11%

13. Loan Structure

Respondents were asked whether their financial institutions planned to tighten, relax, or maintain their loan structures (collateral requirements, guarantees, advance rates, loan covenants, etc.) in each of four different-sized loan categories.

- According to the survey results, seventy four percent of lenders anticipate maintaining their loan structures in the near term loan structures, five percentage points higher than expectations in the previous quarter. Lenders who believe that loan structures would tighten in the near term decreased by only one percentage point to nine percent down from ten percent in the previous quarter. Those lenders who expect to relax their loan structures declined by four percentage points to seventeen percent in the current quarter.

	3Q/2011			2Q/2011		
	Tighten	Maintain	Relax	Tighten	Maintain	Relax
Loans> $25 million	5%	80%	15%	13%	64%	23%
$15 – 25 million	4%	79%	17%	13%	71%	16%
$5-15 million	10%	72%	18%	6%	73%	21%
Under $5 million	18%	66%	18%	9%	67%	24%
Overall Average	9%	74%	17%	10%	69%	21%

14. Interest Rate Spread

Lenders were asked whether their financial institutions planned to reduce, maintain or increase their interest rate spreads and fee structures on similar credit quality loans.

- Seventy two percent of respondents plan to maintain their current interest rate spreads and fee structures on all sizes of loans – higher by thirty percentage points from the previous quarter. Fifteen percent of lenders agreed that they intend on reducing their spreads in the near term; a twenty four percentage point decrease compared to the previous quarter. Lenders who anticipate increasing their interest rate spreads declined to thirteen percent, lower by six points from the previous quarter.

	3Q/2011			2Q/2011		
	Reduce	Maintain	Increase	Reduce	Maintain	Increase
Loans> $25 million	22%	70%	8%	42%	45%	13%
$15 – 25 million	13%	79%	9%	52%	35%	13%
$5-15 million	16%	67%	16%	33%	45%	21%
Under $5 million	8%	75%	18%	30%	42%	27%
Overall Average	15%	72%	13%	39%	42%	19%

15. The Fed and Interest Rates

Respondents were asked in what direction the Fed would move interest rates and by how much in the coming six months.

- An overwhelming ninety percent of respondents believe that the Fed will not change during the next six months, an expectation that is higher by fifty five percentage points compared to the previous quarter. Six percent of lenders believe interest rates will increase in the coming six months versus the previous survey at sixty two percent. Four percent of lenders believe that the Fed will decrease interest rates in the near term versus zero percent during last quarter's survey.

Bps Change	3Q/2011	2Q/2011
-More than 1.0	0%	0%
-1.0	0%	0%
-.75	0%	0%
-.50	0%	0%
-.25	4%	0%
0	90%	35%
+.25	6%	35%
+.50	0%	27%
+.75	0%	0%
+1.0	0%	3%
More than 1.0	0%	0%
Weighted Average	+ 0 basis points	+ 25 basis points

16. Current Competition

Respondents were asked to identify the segment of the industry from which they were experiencing the most competition.

- Regional banks served as the primary source of competition at forty eight percent versus sixty two in the previous quarter. Money Center Banks served as the second highest source of competition at seventeen percent followed by Factors and Regional Banks both at fifteen percent. Commercial Finance Organizations came in as the lowest threat of competition at two percent of the vote and the final two percent of respondents indicated they were from "Other" segments of the industry.

	3Q/2011	2Q/2011
Money Center Banks	17%	17%
Local Commercial/ Community Banks	48%	62%
Factors	15%	9%
Regional Banks	15%	9%
Commercial Finance Organizations	2%	3%
Other	2%	0%